



APRA Brief

Issue No. 11 November 2018

The Political Economy of Agricultural Commercialisation in Ethiopia: Discourses, Actors and Structural Impediments

Key messages

- Across the different regimes, there has been a consistent focus on promoting smallholder agriculture, while the public sector has maintained a significant role in agricultural development.
- Regime changes, and the subsequent dismantling of previous policies and initiatives regardless of their success, has constrained the overall progress of agricultural commercialisation.
- Debates over smallholder versus commercial farming have shaped the discourse surrounding agricultural commercialisation in Ethiopia across all three regimes. The role of the government, the private sector, donors and farmer cooperatives have also been at the heart of this discourse.
- The teff case study shows that agricultural commercialisation in Ethiopia is still low, and is primarily affected by export limits that aim to prevent domestic price hikes.

Introduction

This brief is based on a longer study¹, which examines the political economy of agricultural commercialisation in Ethiopia, by analysing the changing political landscape and electoral trends spanning the past three decades. It gives an overview of the emphasis placed on agriculture, and the promotion of agricultural commercialisation, across Ethiopia's past three regimes: imperial, military, and the Ethiopian People's Revolutionary Democratic Front (EPRDF).

The brief then addresses the state of agricultural commercialisation in Ethiopia with reference to the case study of teff production. Finally, the brief examines the structural impediments to agricultural commercialisation, with a number of suggestions for addressing the challenges identified.

The political importance of agriculture

Agriculture employs over 80 percent of Ethiopia's population, and accounts for more than 40 percent of the country's gross domestic product. Agriculture is also the main contributor to the country's foreign exchange earnings, through export commodities such as coffee, oil seeds and pulses. Agricultural commodities dominate Ethiopia's expanding export sector, with their value increasing from US\$300 million to US\$2 billion between 2002/03 and 2010/11.

The share of Ethiopia's annual budget allocated to agriculture is also indicative of the sector's importance – comprising an average of 10.6 percent of the annual budget between 1980 and 2010. Successive political regimes have recognised the importance of the country's agricultural sector, but – through divergent ideologies – have sought to shape the agricultural sector in different ways.

1

Alemu, D. and Berhanu, K., 2018. The Political Economy of Agricultural Commercialisation in Ethiopia: Discourses, Actors and Structural Impediment. APRA Working Paper 14, Future Agricultures Consortium.

Changing political landscape

Imperial rule (1930-1974) in Ethiopia was signified by infrastructural expansion, with growing urban centres and the proliferation of industry and service provision. Aware of the potential for agriculture to help accelerate economic transformation, reduce poverty and generate employment for a large section of the population, the imperial government put a high premium on the need to improve the sector's performance. With the launch of its Second Five Year Plan (1963–7) in particular, the imperial regime embarked on the expansion of large-scale irrigated agricultural schemes, which established the growth of modern commercial farms in the south-eastern plateau and north-western lowlands to produce cotton, sugar cane, coffee, soybeans and sesame.

However, broad sections of Ethiopia's population continued to face challenges – including economic hardship, environmental degradation and mounting population pressures – linked to a lack of political will and capacity to address them. A sense of unmet promises and exclusion, emanating from swathes of the country's rural population, culminated in the overthrow of imperial rule in 1974.

The **military administration (1975-91)** that supplanted the monarchy introduced radical political and socioeconomic reforms by adopting socialism. These reforms – which included abolishing feudal landlord–peasant labour relationships, dissociating the government from religion, and creating new units of local and grassroots self-government – sought to address the causes of societal discontent that emerged during the previous regime. The 1975 Land Reform Act rendered all land public property under state custody, which led to the nationalisation of private commercial farms and creation of state farms or producers' cooperatives.

The state's excessive appropriation of rural communities' land, however, prevented smallholders from enjoying the positive gains of land reform, and the fragmentation of plots caused by frequent land redistribution rendered smallholdings virtually economically meaningless. These trends resulted in widespread poverty and food shortages that primarily affected smallholders. At the same time, the military regime's agricultural policies adversely affected other sectors, including large manufacturing enterprises and financial institutions. The performance and economic viability of state-owned enterprises in agriculture and manufacturing continued to deteriorate due to mismanagement, neglect and policy shortfalls. The general economic climate that was shaped by the prevalent policy regime undermined the willingness of foreign and domestic investors to proactively engage in economic development.

In May 1991, the military regime was forcibly ousted by the combined efforts of the EPRDF and the Eritrean People's Liberation Front. Under the EPRDF, most of the initial economic reforms were directed towards boosting the performance of the agricultural sector, by adopting free market policies that, it was hoped, would free economic actors in general, and smallholders in particular, from the military regime's restrictive, socialist economic policies. Although positioning smallholder production at the centre of Ethiopia's post-1991 development strategy enhanced the position of the rural poor in the policy arena, the autonomy and performance of smallholders have been curtailed by the EPRDF's quest to control them.

Under the EPRDF, Ethiopia's overarching development policy since the mid-1990s has been anchored in the Agricultural Development-Led Industrialisation (ADLI) programme, which focused on developing smallholder production by rolling out a coordinated



© ILRI/Stevie Mann

agricultural research and extension system aimed at addressing poverty and food insecurity. Other goals set out in the ADLI strategy include commercialisation and diversification of agriculture, and effecting a gradual shift to the production of high-value crops for domestic consumption and exportable surplus. However, the goals associated with structural transformation are yet to be realised – and the country continues to experience poor linkages between sectors, constant power outages, and weak domestic markets linked primarily to widespread poverty.

Support for agricultural development

Agricultural research

State-sponsored agricultural research began during Ethiopia's imperial era in 1954, with the establishment of higher learning institutes, one of which – Alemaya College of Agriculture – is now Haramaya University. In 1997, the decentralisation of national governance was also applied to agricultural research institutes (ARIs), which were broken up into an array of research centres under the Ethiopian Institute of Agricultural Research at federal level, and seven ARIs at regional level. With the increase in actors involved in agricultural research, and to ensure widespread coordination of research efforts, a National Agricultural Research Council was established in 2015. However, nationwide coordination of research efforts remains poor due to limited adoption of available technology, a high turnover in senior researchers and a lack of required research facilities and inputs, amongst other factors.

Agricultural extension

The imperial government's third Five Year Plan shifted the focus of agricultural development efforts from large- to small-scale farming. However, the military government employed agricultural extension services as a means of control over the rural poor, while input and credit provision was largely a means to mitigate the inefficiencies of large state farms and farmer collectives. Since 1991, the EPRDF government has attempted to boost the agricultural sector's productivity with diverse agricultural extension interventions and input delivery systems under the ADLI framework.

The core actors in Ethiopia's current extension system are the numerous farmer training centres and the 25 agricultural technical

vocational education and training colleges that train development agents, the frontline extension workers. The government has set a target of reaching 18.2 million farmers and just under 1 million pastoralists with extension services by 2020.

Input multiplication and supply

In 1978, the Agricultural Marketing Corporation was established to manage agricultural input importation, storage and transport, while the Ethiopian Seed Corporation was tasked with implementing a national seed plan and developing a system for multiplying and distributing improved seed. Since 1978, a number of bodies replaced the original two organisations with the same objective; and, following the progress of the decentralisation of the country's governance structure, regions began to establish their own public seed enterprises – such as the Oromia Seed Enterprise in 2008, and the Amhara Seed Enterprise in 2009.

Recognising the importance of agricultural inputs in promoting agricultural commercialisation, the government set targets to increase the availability of certified seed from 187,000 tonnes in 2015 to 356,000 tonnes by 2020, and to increase the availability of chemical fertilisers by 15 percent each year – reaching 2.06 million tonnes by 2020. The government also plans to scale-up the voucher input credit system that has been piloted in 81 *woredas* (districts) across all regions, and to establish a national data management system for agricultural input supply.

Support to farmer cooperatives

Cooperative movements were visible in Ethiopia during imperial rule, but lacked formal state support prior to the military regime, when cooperatives were formed to assist in the implementation of the collectivisation (villagisation) policy. With the fall of the military regime in 1991, almost all cooperatives were dismantled. In 1994, however, the EPRDF started to promote cooperatives, based on the principles of voluntary membership, participation in the free market and the absence of government intervention. This has not reflected the reality, where cooperatives in Ethiopia are generally established by the state and devoid of autonomy, and function instead as government clients.

Commercialisation clusters and agro-industry parks

As part of the ADLI strategy, the government is currently implementing two initiatives that aim to accelerate the processes of agricultural commercialisation and rural industrialisation. The first promotes an *agricultural commercialisation cluster* (ACC) approach, which has been drawn from the success of economic corridors or clusters in Asian, Latin American and other African countries. Targeting four regions (Amhara, Oromia, SNNPR and Tigray), the ACC initiative has four objectives: to drive specialisation, diversification and commercialisation for priority commodity value chains; to enhance production, the quality of outputs, aggregation, value addition and market linkages; to provide an integrated platform to implement multiple interventions across value chains and sectors; and, to improve coordination between actors in the public sector and the private sector, as well as donors and NGOs.

The second initiative involves the promotion of integrated *agro-industry parks* (AIPs), which seek to enhance agro-processing, leather, and textile and garments – making use of the raw materials produced in the vicinity (a 100 km radius) of each park. The Ministry of Industry set a target of developing 17 such parks as hubs for agricultural commercialisation in different parts of the country by June 2020 – with pilot sites in Humera (Tigray), Bure (Amhara), Zeway (Oromia) and Sidima (SNNPR) already established.

Facilitating investment

Ethiopia's imperial government offered incentives, particularly to agriculture graduates, to begin commercial farming, along with a number of private commercial agriculture schemes that were established primarily along the Awash River. Under military rule, all privately-owned farms were converted into state farms.

The EPRDF began formally promoting commercial farming in 2006, with the Five-Year Plan for Accelerated and Sustained Development to End Poverty (PASDEP), which focused on production for export and of raw materials for emerging agro-industries. Recognising the limitations of smallholder production, PASDEP and large-scale land leases for commercial agriculture were expected to supplement rather than replace smallholder production. This was linked with the establishment of a federal agency known as the federal 'Land Bank', tasked with administering land for agricultural investment on behalf of regional governments. In areas with no sizeable land for commercial farming – predominantly in the highlands – the strategy focused on promoting high-value crops, such as floriculture, with 100% capital loans, tax holidays and tax exemption for the import of inputs like machinery.

Discourses around agricultural commercialisation

Small-scale vs. commercial agriculture

The PASDEP strategy, introduced in 2006, set out a new strategic direction for agricultural development in Ethiopia. The PASDEP strategy seeks to achieve positive outcomes for agriculture at a broader scale, through road construction to link production areas with market centres; the development of agricultural credit markets; a specialised extension scheme; and promoting the production of high-value export crops. To achieve this, the government placed greater emphasis on investment in large-scale agriculture, which, it believed, would help to boost production and farmers' incomes.

In order to attract large-scale foreign and domestic land investments the government offered tax holidays, remittance of profits by foreign investors, immunity against nationalisation, and compensation whenever the appropriation of investment land for public use was deemed necessary.



© Swathi Sridharan, ICRISAT



© Ryan Kilpatrick

The new policy direction begs the question whether PASDEP represents a break with the EPRDF's previous attempts – stipulated in the ADLI strategy – to enhance smallholders' performance. Proponents of the government's ongoing large-scale land deal highlight its positive knock-on effects: the creation of employment opportunities for the rural population, boosting the prospects of national food security, exposing the wider population to new technological developments, and facilitating the infrastructural development.

Criticism of the PASDEP strategy has come largely from CSOs, researchers and human rights groups, and has focused on the problem of elevating foreign capital as the dominant player in Ethiopia's agrarian system. In particular, there are concerns over the concentration of land in the hands of a few large developers, the loss of cultural heritage sites and displacement of affected community members, and the depletion of resources that provide livelihoods for the majority of Ethiopia's population.

As it stands, the total allocation of agricultural land in Ethiopia to medium- and large-scale commercial farms remains very low, accounting for only 4.8 percent of the total land cultivated, and only 4.3 percent of total national agricultural production in the 2014/15 season. But, with the promotion of commercial farming, domestic and foreign investments in primary commodities – such as rubber tree, sugar cane, horticulture and fibre crops like cotton – has been steadily increasing.

Stakeholder roles

With 80 percent of Ethiopia's population reliant on subsistence farming, promoting agricultural commercialisation calls for the combined effort of stakeholders from across the public and private sectors, as well as development partners and donors.

Public sector

For its part, the government has focused interventions on investments in roads and telecommunications infrastructure; improving access to better agricultural inputs to encourage marketable surplus; rolling out agricultural extension services; facilitating smallholders' access to markets through cooperatives; and developing formal market infrastructure, such as the Ethiopian

Commodity Exchange. However, the efficiency of different public services remains low, as does the contribution of farmer cooperatives to agricultural output marketing. Access to and use of improved agricultural technologies, especially improved seed crop varieties, also remains minimal, despite the substantial public investment into public seed enterprises.

Private sector

At present, agricultural output marketing, including exports, is mainly undertaken by the private sector, which has a variety of commodity-specific business networks based in urban and rural areas linking exporters, wholesalers, retailers, brokers, village collectors and farm traders. These networks can be grouped into three categories: export, domestic agro-industry, and domestic consumption-oriented.

Development partners/donors:

Donors and development partners have aligned their support for Ethiopia's agricultural sector with the push for commercialised smallholder production. This support is channelled through five central programmes that are currently underway. The main programme is the Agricultural Growth Programme (AGP), which is funded by multiple donors and aims to strengthen institutions, scale-up best farming/marketing/business practices and develop agribusiness and marketing in four regions across Ethiopia (Amhara, Oromia, Tigray and SNNPR) identified as having 'agricultural potential'.

Status of agricultural commercialisation

Teff production in Ethiopia

Teff is Ethiopia's most important cereal crop, both in terms of production and consumption. Its preference among Ethiopia's wealthier population makes it an attractive cash crop. Teff is also relatively resistant to biotic and abiotic stresses compared to other cereals, can be grown in a range of agro-ecological conditions, and stored for long periods without serious damage from common storage pests. In recent years, teff has become an export commodity, thereby boosting its level of commercialisation beyond the domestic market.

However, with an average productivity level of only 1.3 tonnes per hectare, teff yield is the lowest among cereal crops, owing mainly to the limited use of improved seeds, inefficient agronomic practices and fragmented farm plots. Following a ban on teff exports in 2006, in 2015 the government re-opened the export market, allowing the controlled export of teff through 48 farms licensed to produce for export. The initial ban on exports was implemented to control domestic price hikes, which left farmers tied to local consumers, thus preventing them from accessing the growing demand from abroad.

Teff has been identified as a priority crop, with considerable public investment set aside for research and development into the crop. However, national productivity levels still remain low, as does the level of commercialisation in teff production among smallholders. This has limited the extent to which teff's potential as an export commodity can be realised.

Structural impediments to agricultural commercialisation

Ensuring a marketable surplus

Rapid population growth and an associated decline in farm size work against the possibility of achieving optimal production with



© DFID/Gavin Houtheusen

a marketable surplus at the household level, which equates to diminished prospects for commercialisation. It is therefore important to ensure intensified production together with the creation of opportunities in off-farm and non-farm activities.

Investment in services and infrastructure

Though there has been considerable investment in Ethiopia, the limited availability of support services and infrastructure is hindering the commercialisation process. Much-needed core support services include relevant and efficient extension services, access to financial services and provision of market information on agricultural inputs and outputs. Investments in roads, electricity and telecommunications are also required.

Product aggregation

Product aggregation is crucial for commercialisation as it creates an economy of scale, and associated advantages. The key policy measure to ensure product aggregation is the promotion of farmer cooperatives, but evidence suggests that the role of cooperatives in promoting commercialisation of smallholders' produce remains minimal. The evidence shows that, compared to non-members, cooperative members on average do not supply the market with a greater portion of their output. This implies that, under existing conditions, cooperative membership does not necessarily lead to increased commercialisation. Recognising this issue, current agricultural development programmes have the following goals: transforming cooperatives into market-oriented entities; ensuring access to finance for cooperatives; and expanding cooperatives' infrastructural capacity in order to increase aggregation potential.

Inclusive commercialisation

Inclusive commercialisation addresses how different groups of farmers benefit from the services provided and how they participate in membership and/or governance, including whether farmers in different agro-ecological areas are covered. Evidence suggests that there is a problem of non-inclusiveness where the poorest people tend to be excluded from cooperative membership. Given Ethiopia's enormous agro-ecological diversity, the government and development partners have developed a 'push-pull' model, involving the simultaneous promotion of market development (pull) with increasing production (push).

Institutional arrangements

Contract farming and outgrower schemes have been widely recognised by policymakers as having the potential to link smallholder farmers to domestic and export markets. However, despite its potential, Ethiopia's experience of contract farming has had little positive effect. On the other hand, Ethiopia's limited experience with contract farming indicates that better performance is observed if there is a collective contractual arrangement through cooperatives, rather than with individual smallholder farmers. This implies that cooperatives could play an important role in facilitating better institutional arrangements for contract farming that can ensure smallholders' access to stronger markets.

Conclusion

Across changing regimes, there have been a number of shifts in approaches to promote the agriculture sector – but a consistent focus on smallholder production can be identified across all three regimes.

The current government has put in place a number of strategies to promote commercialisation of smallholder production including: providing better access to agricultural technologies and services (research, extension, markets, etc.); encouraging group action through farmer cooperatives; lending support to commercial farming with backward linkages to smallholder agriculture; and promoting integrated approaches through agricultural commercialisation clusters and establishing agro-industry parks. Private actors and development partners have also played a significant role in these efforts.

Despite these efforts, commercialisation of smallholder production in Ethiopia remains at a low level, though their contribution to national agricultural production remains dominant.

Image captions:

Cover – Kemeriya Mohamed, a farmer in Dodola district, Ethiopia, stacking harvested wheat.

Page 2 – An International Livestock Research Institute lab assistant, Haregua Kefelegne, withdraws seeds for dispatch to multiplication sites.

Page 3 – Ethiopian woman farmer.

Page 4 – Farmer winnowing and sorting teff in Bochessa, Ethiopia.

Page 5 – A cement factory in Dire Dawa provides jobs to local workers – like Kidist Mulugeta, a site surveyor.



Citation: Alemu, D. and Berhannu, K. (2018) *The Political Economy of Agricultural Commercialisation in Ethiopia: Discourses, Actors and Structural Impediments*. APRA Brief 11, Future Agricultures Consortium

© APRA 2018

ISBN: 978-1-78118-494-3



This is an Open Access report distributed under the terms of the Attribution-Non Commercial-No Derivs 3.0 Unported (CC BY-NC-ND 3.0) Attribution — You must give appropriate credit, provide a link to the license, and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use. NonCommercial — You may not use the material for commercial purposes. NoDerivatives — If you remix, transform, or build upon the material, you may not distribute the modified material. You are free to: Share — copy and redistribute the material in any medium or format.

<https://creativecommons.org/licenses/by-nc-nd/3.0/legalcode>

If you use the work, we ask that you reference the APRA website (www.future-agricultures.org/apra/) and send a copy of the work or a link to its use online to the following address for our archive: APRA, Rural Futures, University of Sussex, Brighton BN1 9RE, UK (apra@ids.ac.uk)



**The Agricultural Policy Research in Africa (APRA) programme is a five-year research consortium.
APRA is funded with UK aid from the UK government and will run from 2016-2021.**

The programme is based at the Institute of Development Studies (IDS), UK (www.ids.ac.uk), with regional hubs at the Centre for African Bio-Entrepreneurship (CABE), Kenya, the Institute for Poverty, Land and Agrarian Studies (PLAAS), South Africa, and the University of Ghana, Legon. It builds on more than a decade of research and policy engagement work by the Future Agricultures Consortium (www.future-agricultures.org) and involves new partners at Lund University, Sweden, and Michigan State University and Tufts University, USA.

Funded by



The views expressed do not necessarily reflect the UK government's official policies.